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Rev. Rul. 2018-03: Film packages and domestic production activities deduction under section 199

The IRS today released an advance version of Rev. Rul. 2018-03 ruling that a package of films licensed to customers in the normal course of business may be considered the “item” under Reg. section 1.199-3(d)(1)(i) for determining the domestic production activities deduction under section 199.

Read the text of [Rev. Rul. 2018-03](#) [PDF 24 KB]

Background

The facts presented in the revenue ruling are as follows:

- A taxpayer-corporation licenses a package of films (for example, a television channel) to customers for a fee in the normal course of its business.
- The package contains films licensed to the taxpayer by unrelated third parties and films produced by the taxpayer.
- The taxpayer pays license fees for distribution rights of the licensed films.

The question presented was: May a package of films licensed to customers in the normal course of business be considered the “item” under Reg. section 1.199-3(d)(1)(i) for purposes of determining the domestic production activities deduction under section 199?

IRS’s ruling

After explaining the statutory and regulatory provisions for film production under section 199, the IRS concluded that the package of films is property offered to customers in the normal course of business and, therefore, may be considered the “item” under Reg. section 1.199-3(d)(1)(i) if the gross receipts that the taxpayer

derives from licensing the package of films qualify as domestic production gross receipts ("DPGR").

The IRS cautioned that the ruling does not affect the characterization of the film packages for any other purpose of the Code (e.g., the treatment of the package of films under section 168(f)(3) or under the one motion picture film or video tape criterion for purposes of section 168(f)(3)).

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